HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

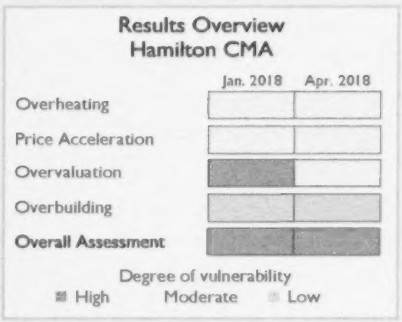
Hamilton CMA

Date Released: Second Quarter 2018

Canada

CMHC SCHL

Highlights



- The overall assessment[1] for Hamilton showed the housing market displayed a high degree of vulnerability in Q4 2017, unchanged from the previous quarter's assessment.
- Evidence of overheating remained moderate since the sales-to-new-listings[2] ratio was persistently above the threshold in recent quarters.
- Evidence of price acceleration remained moderate as the growth rate of the inflation-adjusted average MLS®[3] price increased for an unusual number of consecutive quarters just prior to Q3 2017.
- The degree of overvaluation lessened from high to moderate, as house prices became more aligned with fundamental drivers of housing demand, such as personal disposable income, population growth and employment.

HMA Overview[4]

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions. The HMA combines the results from a technical framework with insights gained through CMHC's Market Analysts' knowledge of local market conditions. These insights position CMHC to provide additional context and interpretation to the results of the HMA framework. The HMA framework detects degrees of vulnerability in local housing markets by identifying imbalances.

In Detail

Moderate Evidence of Overheating

In Q4 2017, the seasonally adjusted sales-to-new-listings ratio was 64% in Hamilton, below the 75% threshold for overheating market conditions. However, moderate evidence of overheating was still detected, since the sales-to-new-listings ratio was persistently above the threshold in recent quarters. The sales-to-new-listings ratio increased from Q3 2017 to Q4 2017, as sales increased more than new listings. A number of buyers entered the market to buy before tougher mortgage qualification rules came into effect in January 2018. Strong employment growth in 2017 and prices softening in Q3 2017 also contributed to greater demand. More homeowners listed their home in anticipation of demand increasing in Q4 2017, causing new listings to remain at an elevated level versus recent history.

The seasonally adjusted sales-to-new-listings ratios of all types of low-rise homes increased from Q3 2017 to Q4 2017. The market for semi-detached/townhomes began to favour sellers, while the market for single-detached homes remained balanced. The sales-to-new-listings ratio for apartments decreased slightly, however the market remained in favour of sellers. Only the sales-to-new-listings ratio for semi-detached/townhomes was near the threshold for overheating, as demand significantly outpaced supply. Regions with generally lower priced homes,

[1] Results are based on data as of the end of December 2017 and local market intelligence up to end of March 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

[2] A sales-to-new listings ratio above 65% is associated with sellers' market conditions. In a sellers' market, inflation adjusted home prices are generally rising. A sales-to-new-listings ratio below 45% has historically accompanied inflation adjusted prices that are falling, a situation known as buyers' market. When the sales-to-new-listings ratio is between these two boundaries, the market is said to be balanced. New listings are a gauge of the supply of existing homes coming onto the market, while sales are a proxy for demand.

[3] Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

[4] A detailed description of the framework is available in the appendix of the National edition.

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such as Hamilton East, Hamilton Central and Hamilton Mountain favoured sellers.

Timelier data for Q1 2018 shows that the overall resale market remained balanced, with the seasonally adjusted sales-to-new-listings ratio decreasing just slightly. New listings decreased more than sales and were at their lowest level since Q3 2016, as a number of homeowners anticipated that demand would significantly decrease once the tougher mortgage qualification rules came into effect in January. The only market to remain in favour of sellers was for semi-detached/townhomes. The markets for single-detached and apartments were both balanced.

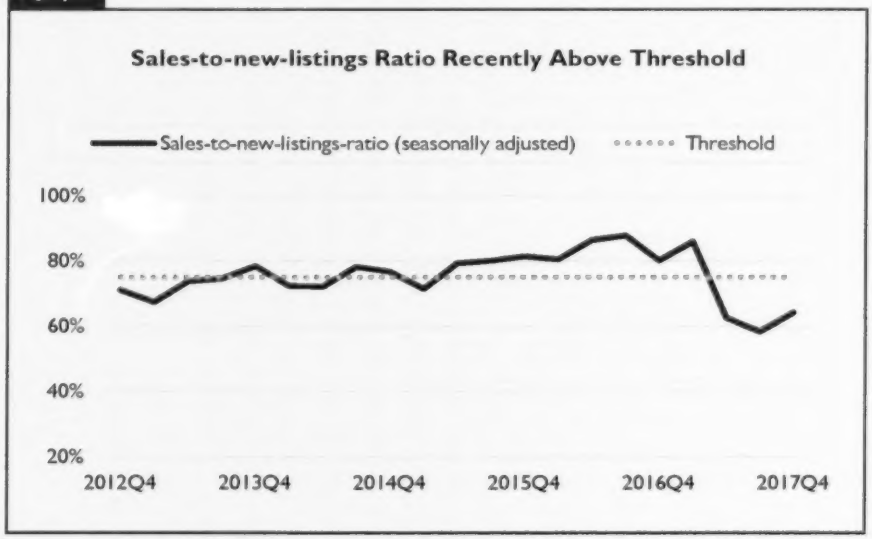
Moderate Evidence of Price Acceleration

Evidence of price acceleration remained moderate since the growth rate of the inflation-adjusted average MLS® price had increased for an unusual number of consecutive quarters just prior to Q3 2017. The inflation-adjusted price was relatively flat from Q3 2017 to Q4 2017, which is typical for a balanced market. The composition of MLS® sales also contributed to the lack of price growth, as the percentage of transactions over $1,000,000 was smaller in Q4 2017 than in Q3 2017.

Anthony Passarelli
Senior Market Analyst

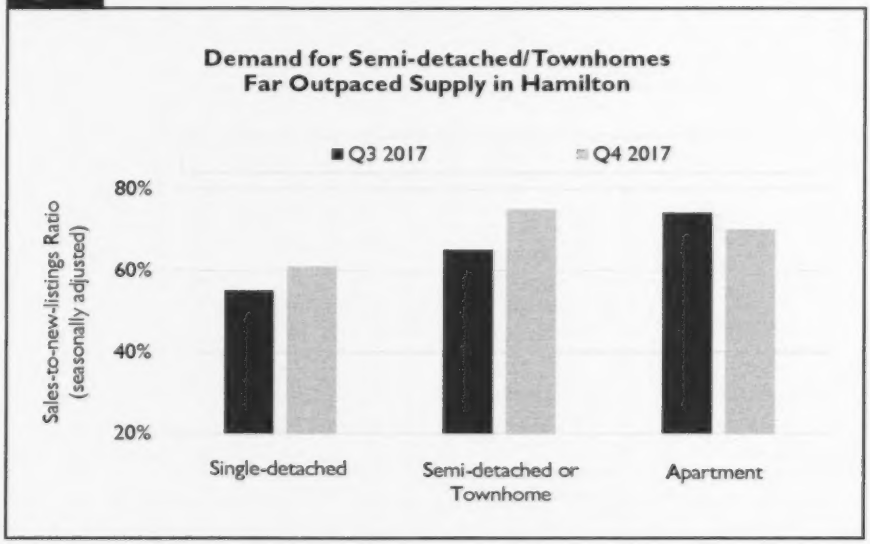
"The HMA framework continued to detect a high degree of vulnerability in the Hamilton housing market due to moderate evidence of overheating, price acceleration and overvaluation. However, the degree of overvaluation lessened, as house prices became more aligned with fundamental drivers of housing demand."

Figure 1



Source: CREA, CMHC calculations. Last data point: Q4 2017

Figure 2



Source: Realtors Association of Hamilton-Burlington®, CMHC calculations.
Last data point: Q4 2017

The seasonally adjusted average MLS® price remained steady from Q4 2017 to Q1 2018, due to balanced market conditions. Again, the composition of MLS® sales was a contributing factor, as the percentage of MLS® transactions at $1,000,000 or greater continued to decrease.

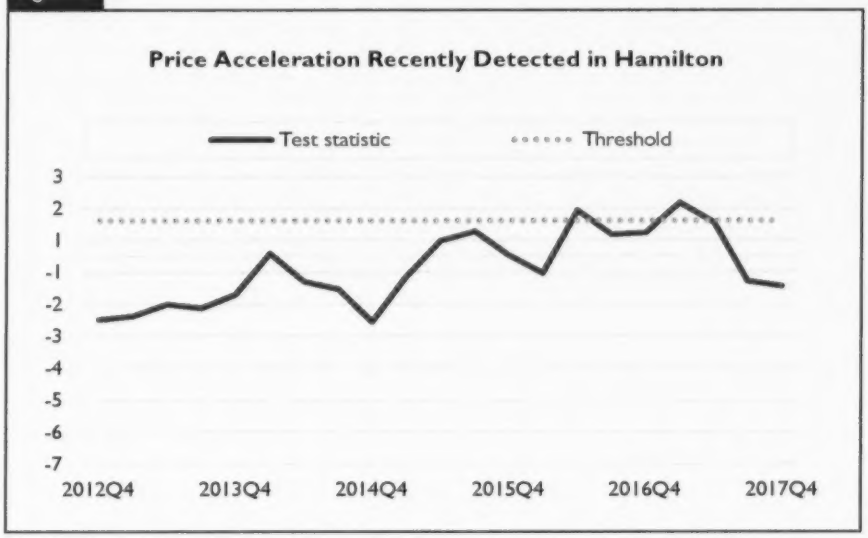
Moderate Evidence of Overvaluation

While Hamilton house prices remained higher than levels supported by financial, economic and demographic fundamentals, the degree of overvaluation lessened from Q3 2017 to Q4 2017. House prices became more aligned with fundamental drivers of housing demand, such as population growth, real personal disposable income and employment.

The gap between population growth among 25 to 34 year olds and home price growth remained unusually wide, despite the gap narrowing in recent quarters. The population 25 to 34 years old is a fundamental driver of housing demand in Hamilton, as they make up the largest share of first-time buyers in that market. The annualized growth rate of Hamilton's population 25 to 34 years of age remained strong at over 3.0% in Q4 2017. Despite house prices in the GTA retreating to Q4 2016 levels, a significant number of 25 to 34 year olds from there continued to migrate to Hamilton in search of more affordable housing options, particularly low-rise homes. High immigration levels have also contributed to the strong population growth in this age group.

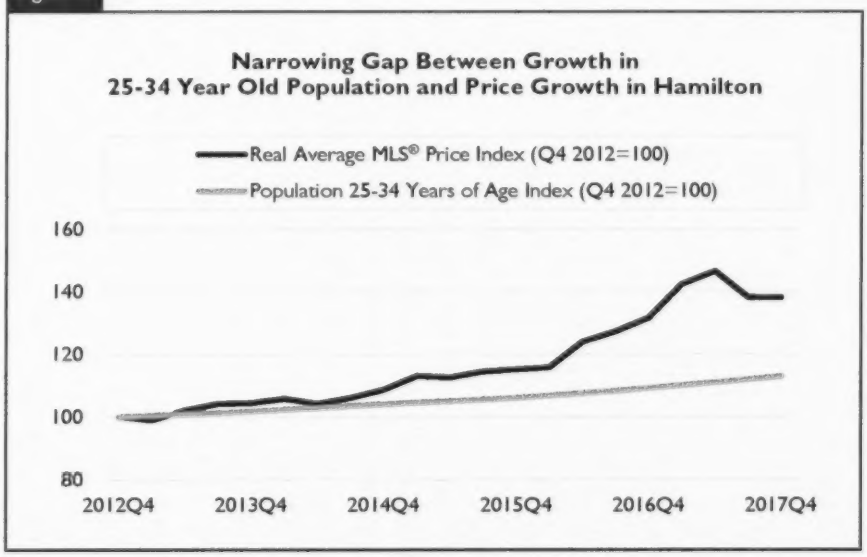
Inflation-adjusted personal disposable incomes have either kept pace or outpaced the inflation-adjusted average MLS® price in just 4 of the past 12 quarters. However, two of those instances were recently in Q3 2017 and Q4 2017. Inflation-adjusted personal disposable incomes have grown in five of the past six quarters. Factors supporting income growth remained strong, as both the unemployment rate and ratio of part-time to full-time jobs were below their respective ten year averages.

Figure 3



Source: CREA, CMHC calculations. Last data point: Q4 2017
Note: The test is done using the MLS® average price. Other price indices are also monitored.

Figure 4



Source: CREA, Statistics Canada, CMHC calculations. Last data point: Q4 2017

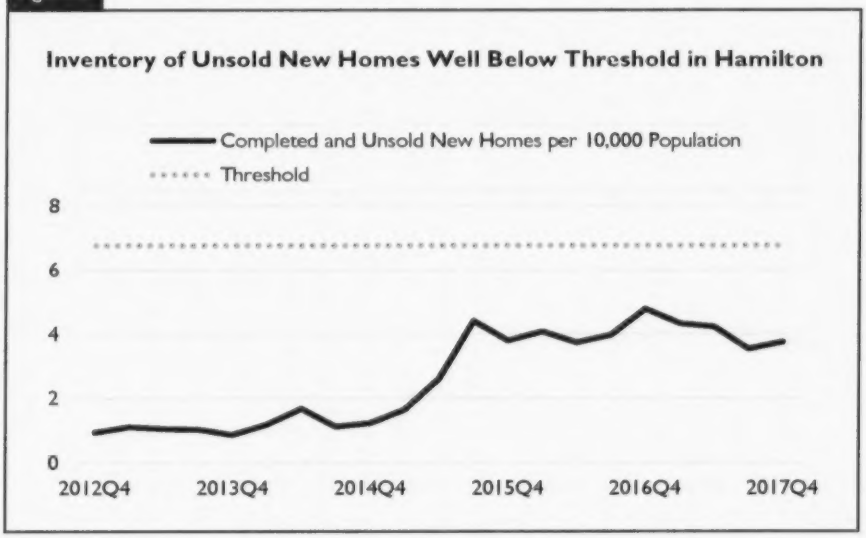
Low Evidence of Overbuilding

In Q4 2017, both the number of completed and unsold new homes per 10,000 population and the rental apartment vacancy rate were at levels that indicated weak evidence of overbuilding. The annual CMHC Rental Market Survey was conducted in October 2017, showing the overall vacancy rate in Hamilton was 2.4%, well below the overbuilding threshold of 4.0%.

Following seasonal adjustment, the number of completed and unsold new homes per 10,000 population increased slightly from Q3 2017 to Q4 2017, but remained well below the overbuilding threshold. Inventory increased due to a number of unsold apartment completions, mostly in Burlington. New home inventories of all other dwelling types were lower in Q4 2017 compared to Q3 2017.

More recent data indicated that the number of completed and unsold new homes decreased significantly from Q4 2017 to Q1 2018, as apartment inventories were fully absorbed. Most of the small inventory of unsold new homes in Hamilton were townhomes, predominantly concentrated in Waterdown and Ancaster.

Figure 5



Source: CMHC, Statistics Canada. Last data point: Q4 2017

Overview of the Housing Market Assessment analytical framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence rather than relying on just one measure or indicator.

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (1) overheating (when demand outpaces supply); (2) sustained acceleration in house prices; (3) overvaluation of house prices in comparison to levels that can be supported by housing market fundamentals (listed below); and, (4) overbuilding (when the inventory of available housing units is elevated).

For each factor, the framework tests for: (1) the incidence of signs of vulnerability, but also considers; (2) the intensity of the signals, i.e. how their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

Housing Market Assessment Factors

Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify signs of overheating, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.

The HMA framework uses combinations of different house price measures and models to estimate house price levels warranted by fundamental drivers. The difference between observed house prices and their estimated levels consistent with housing market fundamentals allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance increases.

Note 2: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

Note 3: The colour scale extends to red only for those factors that have multiple indicators that can identify imbalances. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

Note 4: To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators showing vulnerability from the previous assessment.

* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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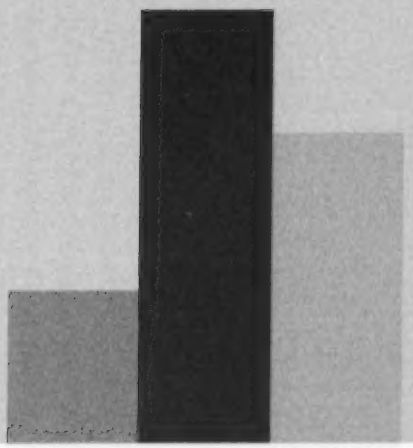

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